

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	00-0259
Petition for expedited approval of implementation of a market-based alternative tariff, to become effective on or before May 1, 2000, pursuant to Article IX and Section 16-112 of the Public Utilities Act	
Central Illinois Public Service Company Union Electric Company	(cons.)
Petition for approval of revisions to market value tariff, Rider MV	00-0395
Illinois Power Company	
Proposed new Rider MVI and revisions to Rider TC.	00-0461

**DIRECT TESTIMONY OF KOBY BAILEY  
ON BEHALF OF NICOR ENERGY, L.L.C.**

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0259/0395/0461

Nicor Energy Exhibit No. 10

Witness \_\_\_\_\_

Dated 10/3/00 at \_\_\_\_\_ baile

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1 Q.1. Please state your name and business address.

2 A.1. Koby A. Bailey, 1844 Ferry Road, Naperville, Illinois 60563.

3 Q.2. On whose behalf are you testifying?

4 A.2. Nicor Energy, L.L.C. ("Nicor Energy").

5 Q.3. Please summarize your educational background and experience.

6 A.3. I hold the degree of Bachelor of Science, majoring in Economics and Finance  
7 from Illinois State University, and the degree of Master of Science, majoring in  
8 Quantitative and Regulatory Economics from Illinois State University. I am  
9 Director of Regulatory Affairs for Nicor Gas, a subsidiary of Nicor, Inc., where I  
10 have been an employee since January of 1998. From November of 1995 until  
11 October of 1997, I was employed as Assistant to the Chairman of the Illinois  
12 Commerce Commission. From June of 1991 until November of 1995, I was  
13 employed as an economist at Argonne National Laboratory.

14 Q.4. Have you previously testified in proceedings before the Illinois Commerce  
15 Commission ("ICC" or "the Commission")?

16 A.4. Yes. I submitted testimony in Docket Nos. 98-0649, 98-0650, 98-0769, 99-0017  
17 and 00-0007.

18 Q.5. Please summarize the goals Nicor Energy would like to see accomplished in this  
19 proceeding.

20 A.5. Nicor Energy would like to see a market value that reflects the cost of a marketer  
21 procuring electric power and energy for delivery into the Illinois' electric market.  
22 To effectuate such a correspondence between the market value and a RES' cost of  
23 procuring power and energy for delivery into Illinois' electric market, several

24 factors are important to derive an appropriate market value. The "samples" taken  
25 to develop a market value must be from indices or other data sources that have a  
26 sufficient number of transactions or data points. In the case of using indices for  
27 the sampling sources, the pricing in those indices should reflect both a liquid and  
28 transparent market.

29 Additionally, the matching of a market value that reflects the cost of a RES's  
30 procuring power for delivery to retail customers is vital in that the market value is  
31 key to the competitiveness of the utility-sponsored Power Purchase Option  
32 ("PPO") and the customer transition charge ("CTC").

33 Q.6. Please explain the relationship between the market value and the customer  
34 transition charge.

35 A.6. The market value inversely affects the CTC. All things being equal, when the  
36 market value increases in price, the CTC decreases in price by an inversely  
37 proportional amount. The inverse is also true. In order to effectively compete in  
38 the Illinois electric marketplace, marketers in general and Nicor Energy in  
39 particular must be able to procure power and energy at a value that will be  
40 competitive with the utilities' PPO option to customers.

41 Q.7. How is your testimony organized?

42 A.7. My testimony is organized according to the outline of issues developed by the  
43 parties in the workshops held for this proceeding.

44 **I. Use of Market Index Approach**

45 Q.8. Do you support the use of a market index approach to derive a market value for  
46 electric power and energy?

A.8. Yes. Clearly, as stated in previous testimony in the NFF proceeding (Docket 00-0007) and in ComEd's market index proceeding (Docket 00-0259), the NFF approach to deriving market value has fatal drawbacks.

#### IV. Time Period of Calculations

##### A. Applicable Period A/B

Q.9. Do you agree with ComEd's and Ameren's use of an A and B period for determining market value?

A.9. No. According to the utility's respective tariffs, period A contains twelve (12) months of data, and period B contains eight (8) months of data without utilizing a summer period. Utilizing two different time periods' results in a substantially higher period B CTC value, which has the effect of changing the pricing structure for a given customer. With higher period B CTC values, the economics of choice becomes limited in a detrimental fashion. For example, a major fluctuation in pricing/savings occurs during the summer because of the A/B period pricing.

Q.10. Why is the use of an 8-month, period B or stub period detrimental to choice?

A.10. By not incorporating summer market values in period B, fluctuations in pricing/savings occur because the period B CTC values are inflated. This higher CTC value greatly reduces a customer's economics of choice, either to the PPO or to a RES' own power supply during the September through May timeframe. While power prices are lower during the eight-month, nonsummer period, the corresponding increase in CTC's removes some customer incentives to procure competitive power. Even though customers that choose delivery services during period B will eventually have access to period A pricing in June, customers contemplating choice during the nonsummer periods may delay their choice and remain with the utility until the next period A commences. Additionally, the products provided by competitors may also be limited due to a short time period of known pricing.

Q.11. What is a better alternative to the dramatic CTC changes between period A and period B?

A.11. A preferable alternative to the Period A/B pricing model is a market value calculation that includes a full 12-months forward. In some ways, a 12 month

forward is similar to the NFF calculation as it may tend to incorporate an entire year's worth of market values and would establish a market value and hence PPO's and CTC's that are applicable throughout a 12-month period.

**B. IP 12 Month Rolling Calculations**

Q.12. Do you favor IP's 12 month rolling calculation for setting a customer's market value for the PPO option?

A.12. Yes. As long as individual customer CTC's and customer class CTC's are available, the 12 month rolling calculation appears to be better for marketers and customers, as marketers can better price on a one year basis, and customers are better able to see consistent savings throughout the year. By taking a new 12-month sample every month, market values available across a year should be relatively stable.

Q.13. Is the 12-month rolling calculation favorable to Ameren's and ComEd's proposals of utilizing A and B periods for pricing?

A.13. Yes. IP's method ensures that a summer period will be explicitly included in a customer's pricing for a consistent amount of time. Simply put, a 12 month value equates to a stable market value.

Q.14. Do you recommend Ameren and ComEd adopt the 12-month rolling calculation?

A.14. Yes. While uniformity in this area would be ideal for marketers, there may be some practical differences between utilities' operations that would constrict adopting identical market value indices. However, for any pricing period, the summer months need to be incorporated at least on a quarterly basis. Without including summer months for a pricing period radically affects the market value and the corresponding CTC, because the market value is extraordinarily different for the A/B periods. Without incorporating summer pricing, the CTC's of a customer increase substantially, such that, choice of some customers becomes less and less economical.

Q.15. Do you have any other recommendations regarding the 12-month versus the A/B period pricing for market values?

108 A.15. Yes. One suggestion is to calculate Market Values on a quarterly basis utilizing  
109 12 month forwards. This method would allow customers to receive a relatively  
110 long-term annual CTC price. Long-term annual CTCs provide rational business  
111 choices and increase the stability of Illinois' young competitive electricity market.

112 **VI. PPO ISSUES**

113 Q.16. Do you have any issues with regard to Illinois Power Company's ("IP's") thirty  
114 (30) day switch period for customers who want to sign-up for the PPO?

115 A.16. Yes. As a possible marketer product, the utility PPO, it would be difficult for a  
116 customer to sign-up for the PPO without knowing the applicable pricing. The 30-  
117 day switch period appears to be too long of a time frame for accessing  
118 competitive opportunities. It is my position that the length of time for the switch  
119 should correlate with the length of time for DASR submittal. That is, the switch  
120 period should be no more that 10 days for customers to elect to take service on the  
121 PPO. It is also my understanding that Ameren and ComEd both correspond their  
122 switching length of time to the applicable DASR. Therefore, I recommend that  
123 the 30-day switch period be shrunk to the 10 day DASR time period.

124 Q.17. Does this conclude your direct testimony?

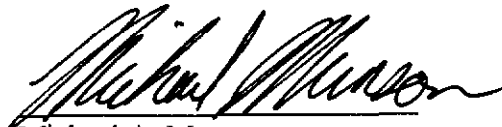
125 A.17. Yes.

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**CERTIFICATE OF SERVICE**

I, Michael A. Munson, hereby certify that a copy of Nicor Energy LLC's Direct Testimony of Koby Bailey filed in the above-captioned proceeding was served on the person or persons on the attached service list by depositing same in the United States Mail depository with proper postage prepaid thereon, by Federal Express, by facsimile, by hand-delivery or by electronic mail on August 29, 2000.



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